DOW THEORY LETTERS INC.

RICHARD RUSSELL
P.O. Box 1759
La Jolla, Calif. 92037

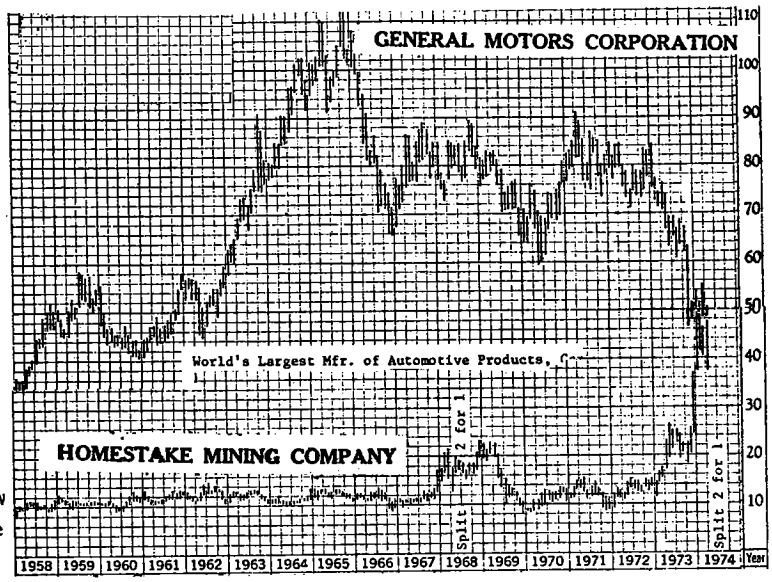
36 Letters per Year — $95 Annually

Registered with the Securities Exchange Commission

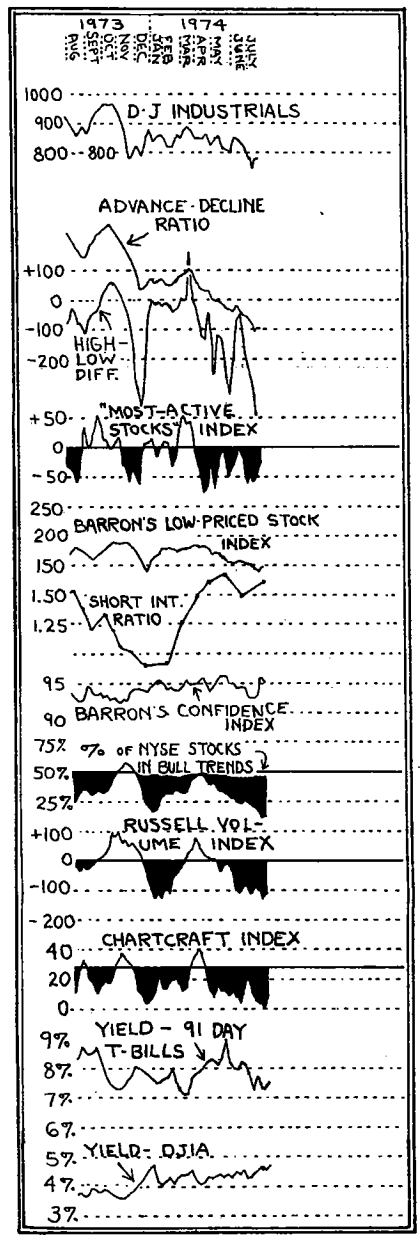
July 26, 1974 Letter 604

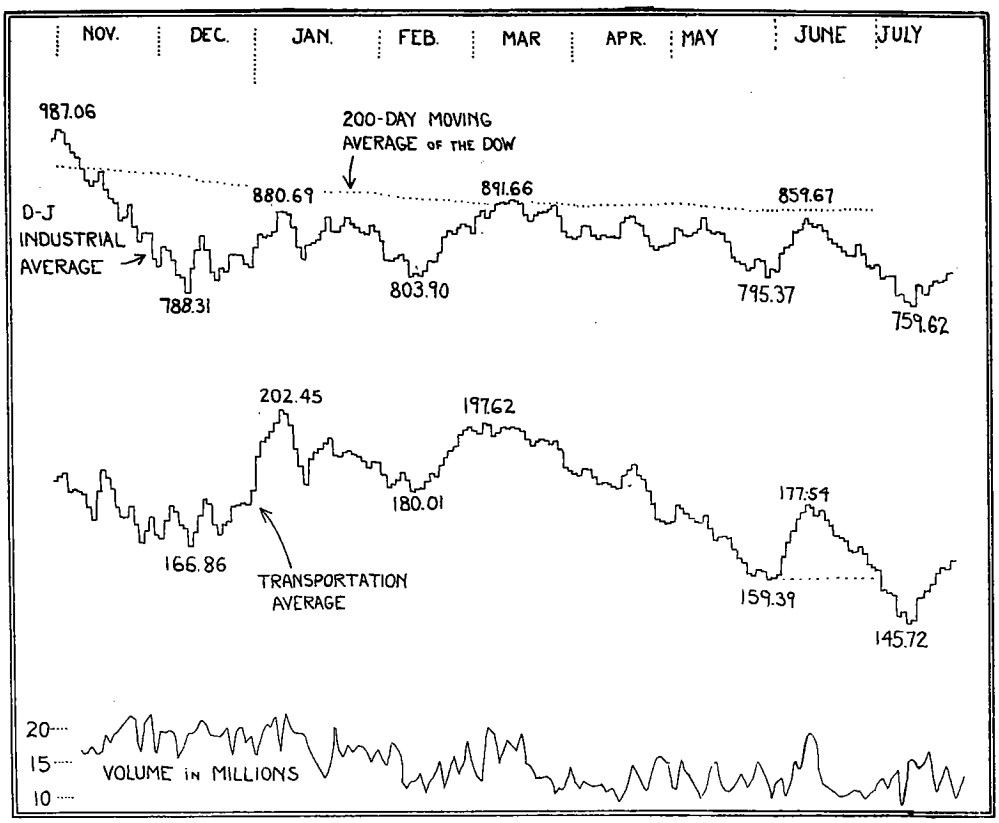
July 12, DJIA 787.23; PTI 358; A-D ratio -28.24
July 19, DJIA 787.94; PTI 360; A-D ratio -27.80

THE GREAT DOUBLE-CROSS: July, 1974, represents a most significant month for investors and Wall Street students, the month of the great double-cross (see chart). Those who have insisted that "conditions are basically sound" and that "it's still a bull market" may well have been holding stock in the world's largest manufacturing company (GM) right up to the present (what better stock to hold if it's a bull market!). If so, they have seen their equity drop 61% in the great collapse of GM from the 113 high of 1965 to the recent low of 44.


GENERAL MOTORS CORPORATION
World's Largest Mfr. of Automotive Products
HOMESTAKE MINING COMPANY
Split 2 for 1
Split 2 for 1
1958 1959 1960 1961 1962 1963 1964 1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 Year

Those of us who believed it was a primary bear market have been holding the gold shares with many of us holding Homestake (a prime leader). Here we have seen HM advance from the 1969 low of 8 to last week's all-time high of 54, an appreciation of 525%. We also saw the price of HM rise above the price of GM for the first time, an action which I immediately termed the great cross-over.





I might add that those who hold common stocks during a bear market are working on a losing proposition; they are literally trying to run up the down escalator. Ultimately these stubborn optimists will get swept away by the furies of the outgoing tide. Conversely, those who hold their shares during a primary bull market will live to see their shares (at least on average) rise to new highs with each successive advance of the bull. This is

 the kind of action which produced the dramatic all-time high on Homestake last week, and it means that if you bought HM at the old pre-split high of 99½ or a later split-price of 42 or 38, or whatever, it doesn't matter. The ongoing bull market in golds has bailed you out! In time, all the golds will make their moves, they will make sensational advances, and they will finally "blow their tops." That's the way great primary bull markets work.

THE 1974 EQUATION: If we continue to inflate confidence will collapse, if we halt inflation business will collapse.....

THE PICTURE: Last week Senator Wilbur Mills urged President Nixon to clamp a lid on all Government agencies as he advocated a $10 billion cut in total Federal spending. The people, said Mills, are on the verge of "panic" brought on by galloping inflation. Maybe so, I muse, but I still feel that what the average citizen wants is "a piece of the action." Failing that, he may opt for an end to price rises. I also find it strange that Canada, our sister to the North, voted in (by overwhelming majority) the liberal, high-spending Trudeau rather than his much more conservative opponent. Where is the Canadian urge to end inflation? (Probably in the same place the American urge is .... and that seems to be a hard place to find).

The very astute Axe-Houghton Survey (Axe Castle, Tarrytown, NY 10591) put the situation in such stark and incisive terms (July report) that I want to publish their conclusion below:

> CONCLUSION: American industry and commerce are suffering from acute capital starvation. Unless we change our attitudes and policies toward business, we run the risk of killing the goose that laid the golden egg. Real retained earnings of American business, the best fuel for growth, have shrunk to unsatisfactory levels. Real profit margins have tumbled from 10% in 1965 to below 4% currently, and the effective tax rate has shot up to 66%. Starving for internal funds to re-invest and nourish normal growth, companies have been relying more and more on external sources, mostly debt, to such an extent that liquidity has sunk to an intolerably low level. Ignoring or not knowing these facts, the public is clamoring to wring more blood out of the profit stone. The stock market has seen through the phantom high profits and followed the lower level of real profits. It has been estimated that American industry will need almost $3 trillion during the next decade. We have tried to show that it is in no condition to raise the required capital. The bear markets in stocks and bonds show clearly the urgent need to revive confidence by curtailment of government spending, together with tax cuts and other incentives for saving, investment, and productivity, as opposed to conspicuous consumption and excessive credit expansion.

Unfortunately, I see little hope of really reduced Government spending, nor do I (at the moment) see any great spurs to savings or higher productivity. Thus, it is entirely possible that the ongoing primary bear market will be discounting a cave-in in confidence, a climax to the liquidity crisis, perhaps the final roaring of inflation, followed by US and world depression. I realize that this is not a pretty picture, but then my readers don't pay me to paint pretty pictures. The fact is that this country has been listening to pretty word pictures for a long time. The resultant mess is now beyond belief.

Meanwhile, the great debate seems to center around how long the world can survive zero liquidity and record high interest rates. So far, the "big squeeze" seems to have put the pressure on everything except prices. The latest inflation rates are as follows: Britain 22% ("I'm all right, Jack"), Italy 18%, Ireland 15%, Denmark 14%, France 13.5%, US 12%, Belgium 11.5%, Germany (the hero) at only 8.5%. What has actually happened is that the world has accepted the inflation rate as a cost of living and doing business (true, we've had a little consumer riot here and there). Corporations have simply upped salaries and prices to absorb the fantastic inflation rates. Such euphoria will not last, I'll stake whatever reputation I have on it.

Turning to the market, Wall Street seems to have developed its own brand of the famous "Chinese water torture game." This insidious bear market refuses to roll over and plunge into a true oversold condition (see last Letter regarding the high-lows, and of course we missed a high-low selling climax when the market rallied). On July 11 the D-J Industrials dropped to a post-1970 low of 759.62, while the Transports broke to their own four-year low of 149.41. Volume was unimpressive on the joint penetrations, odd-lot short selling jumped to 14,000 shares on two days, but that hardly matches the whopping short totals at the 1970 bottom. The D-J 40-Bond Average continued to make new lows as the weeks wore on, and Primary Trend Index (PTI) moved sideways in a sluggish manner (figures atop page 1). Nevertheless, the rally should serve to lure new fish into the bear market, and it should also have the effect of extending this third major leg down from the January, 1973, all-time Dow peak of 1050.71.

It might be well to realize that in the 22 trading days from the June 10, 1974, peak (Dow 859.67) to the July 11 low (Dow 759.62), the senior Average lost 100 points. At that rate of descent, the Dow would have reached zero by the end of the first quarter, 1975. There is an excellent chance that this primary bear market will carry well into 1975, but it can hardly do so at the June-July decline rate. Thus, the rallying action, the holding action, the bounces, the rekindling of dying hopes should be accepted for what they are — rest periods for the bear.

Primary bear markets have a habit of playing with men's wishes and expectations, and one of the ways is via the "explosive rally." I have often written that a rally in a bear market often looks more impressive than the real thing, (i.e., a major advance in a bull market). The list of the bear casualties is a long one, and the July respite will be setting the stage for the next attack of the bear. I would think that this will set in during late-August or September. In the meantime, Wall Street will attempt to sing the siren song while the bear waits and builds his strength.

MONEY and the MARKET: Periodically (see Letters 575, 598) I run my chart of four money-oriented indicators. This chart (page3) has been very useful in the past for gauging the underlying conditon of the market and the monetary background. I have stated

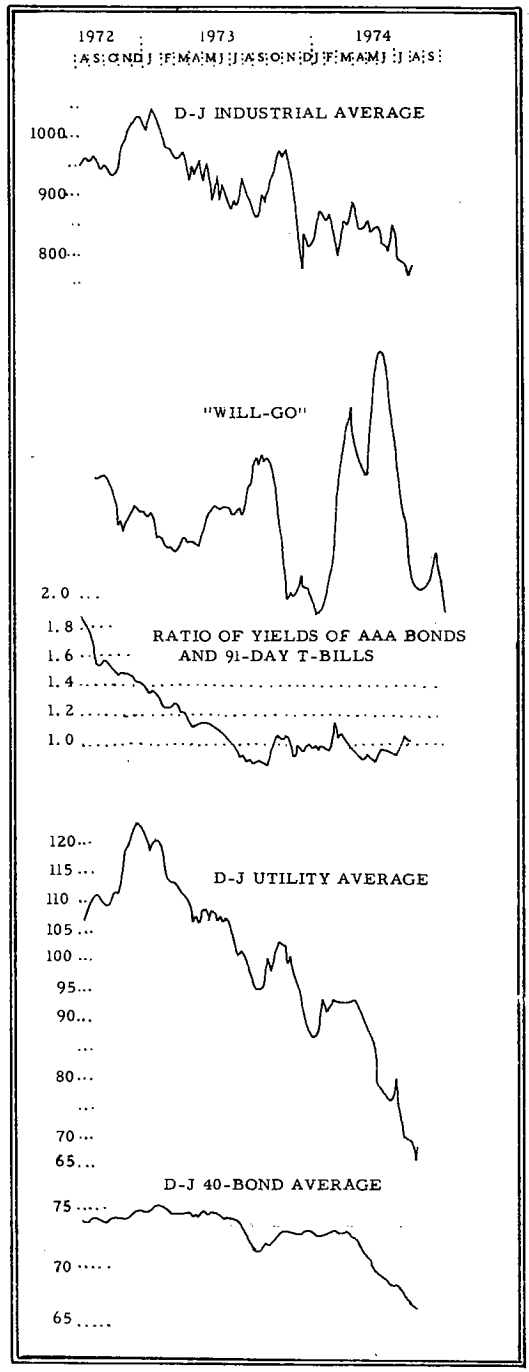
repeatedly that a rising trend in both the D-J 40-Bond Average and the D-J Utility Average constitutes a bullish background for Wall Street. Conversely, a declining trend in these two interest rate-sensitive indicators represents a negative background for the market. A glance at the chart shows us that the market background, from the standpoint of these two indicators, is now bearish. Last week, despite a rally in the Utility Average, the 40-Bond Average dropped to 66.40, lowest level since November, 1970.

Next, refer to the ratio of the yields on Aaa-rated Industrial Bonds and 91-days Treasury bills. Normally, the longer the time span for debt maturity, the higher the yield (since there is a greater risk in waiting a longer time). Thus, in "normal" times the yield on T-bills will be substantially below the bond yields. But during times of monetary crisis, the need for short-term money becomes urgent and short-term money rates can rocket up. At such times, short-term C/D, bill and note yields can rise above long-term bond yields. When this occurs, the ratio not only declines but it will drop below 1.0.

On this ratio study, a drop by the index below 1.4 constitutes a "sell signal" for stocks (because of deteriorating money conditions). A further drop below 1.2 on the ratio is a "strong sell." Conversely, a rise from lower levels above 1.2 is a "buy signal" for stocks (improving money conditions). A further rise to above 1.4 represents a "strong buy."

In December, 1972 (Letter 549) this index gave a first sell signal by breaking below 1.4. On March 16 (Letter 558) we received a strong sell as the ratio broke below 1.2. The ratio was telling us that monetary conditions were "going bad." On June 29, 1973, the ratio actually dropped below 1.0 as the bill rate climbed above the bond rate. Over the past few weeks (see Letter 602, page 2) confidence has evaporated in the money markets and heavy buying has come into T-bills (as money left the C/D market, the Eurodollar market, the banks, etc.). This had the effect of bringing bill yields down (as the price of the bills rises, their yields decline), but even this extraordinary and unique buying of T-bills resulted in a reading of only 1.05 on the bill-bond ratio. Obviously, the heavy pressure on bonds rates has continued to hold the ratio in bearish territory below 1.2.

Next, we have Will-Go (invented by Larry Williams), so named because wherever this indicator points, the market in time will go. Will-Go's formula was discussed in Letter 598, page 4, and I will not repeat it here. But it should be understood that Will-Go (1) is based on the differential in the yields on the D-J Industrials and the yields on Barron's 10 High-Grade Bonds, (2) Will-Go tends to move about 10 weeks ahead of the market, (3) Will-Go basically deals with the direction of coming market movements, not extent, (4) Will-GO is therefore plotted 10 weeks ahead on my chart.



In Letter 598 I offered a Will-Go prophecy as follows: "This yield-oriented index is saying that the Dow should touch a rally peak in early-May, then decline for 10 weeks into early July. And that's as far as Will-Go's crystal ball can see at this time." What actually occurred? The Dow touched a rally peak of 856.67 on June 10, then declined steadily to a July 11 low of 759.62.

What is Will-Go seeing now? Will-Go sees a rally of about a month's duration perhaps through August or into early September (but not an impressive rally), then another (probably important) downturn in September, which is as far as Will-Go sees ahead at this time.

Remember, Will-Go is not a magic formula for beating the market, rather it is an interesting indicator which has provided some rather prophetic readings. Also, Will-Go's timing is not exact, and at times it has led the Dow by eight weeks, at other times as much as twelve. Currently, the lead-time seems to be nearer twelve.

POPULAR OPINIONS....which I take exception to. The following is a list which I have wanted to refute for quite some time:

(1) When gold is legalized, there will be a flurry for a few days, then the price of gold will go down. After all, "look what happened in Japan." This widespread thesis (adhered to particularly by anti-gold elements) is not going to be the scenario, in my opinion. First of all, Japan has no gold tradition. The US does, and this is crucial. The West was literally opened by Americans' unquenchable quest for gold. San Francisco was build on gold. Some nations such as France have a gold background. India and China have a silver tradition. The US most definitely does have a gold background; and US citizens have always been fascinated by gold. I believe gold legalization will bring in steady and amazingly large buying in this country. I further believe that the gold buying will ultimately develop into an absolute craze.

(2) "If gold or gold stocks go down, this is bullish for the stock market." Some advisories have labored under the mistaken notion that if they can "talk" gold down, this will somehow "help" Wall Street (as well as help the advisors, most of whom have been very bullish and very wrong on the market). This position is tantamount to a man buying a Cadillac on time, then thinking he can cancel the deal if he drives the Caddie off a cliff. Destroying the asset won't cancel what he owes, and the whole thesis can best be described as pathetic. Dollars constitute IOU's for gold. Despite this, our leaders have for years been telling us that if we destroy gold the dollar holders will be better off.

(3) If the US can just halt inflation, the stock market will take heart and take off. Controlling galloping inflation without setting off an economic collapse is like trying to stick a pin in a balloon gradually. Mr. Burns, Mr. Simon, and our new advisor, Mr. Greenspan, are all serious, sincere, free-enterprise boosters and practitioners. But we haven't given them a balloon, we've given them something worse — a dirigible! Personally, I don't know how they're going to get it down. I don't know what's going to hit the fan if they cut spending or keep interest rates high or continue their tough stand. But I do think one thing. If the economy starts down (and there is a good chance that it will), it's going to be one devil of a job firing it up again. Bear markets don't work the way bull markets do, and balloons that explode can't be reinflated very easily.

(4) "The Arabs are going to recycle all their dollars, thereby saving the West." To which I say, dream on. The oil importing countries will run a deficit of around $60 billion this year, and around $100 billion during 1975 and thereafter. Say the Arabs invest half of this amount in the West (which is about double what I actually expect), this would still leave $90 billion in the next two years which the Arabs could use for loans. At $150 gold, the West has about $175 billion in gold. With Italy collateralizing its gold and the US giving gold-backed guarantees (specially arranged loans), does anyone think the Arabs are going to continue taking in vast amounts of printed paper? If you do, I say you are underestimating a group of nations which have for centuries been known as shrewd lenders.

At the present world deficit rate, the Arabs will have a call on all the Free World's gold (at $150 per ounce) within a matter of three or four years (or less). As Otto Roethenmund (Vice Chairman of the Board, Foreign Commerce Bank) recently pointed out, "Prudent money management will dictate that the Arab nations test their right to redeem in gold well before all monetary gold reserves are mortgaged to them. But it is inconceivable that any Western nation will hand over all or even most of its gold holding in this manner. If and when this point is reached, we can expect a complete breakdown in the international monetary system, and a barter system developed in gold between the Arab nations and the West. This, of course, would result in a massive devaluation of all currencies against gold (and silver), a far higher gold price than the present free market price and a return to the gold convertibility for currencies, i.e., a return to some form of the gold standard."

GOLD: In the last Letter I referred to the bullish indications of my momentum studies on the golds. I want to go into more detail regarding gold momentum at this time. The accompanying chart (page 5) shows Barron's Gold Average (weekly) from 1968 to the present. I take the primary bull market in golds as having started in late 1969. The first major correction occurred in 1971 (A on chart). From there the Gold Average tripled to the 1973 peak. This was followed by the 1973 correction marked B on chart. From the low's at B, the Gold Average better than doubled to the 1974 peak, and again (at C) we witnessed a sharp correction.

Note that following the bottom of the B correction, we had a major upward zig-zag, and such formations (following a correction) indicate the demand is overpowering supply. Following the upward zig-zag the Gold Average (in 1973) rose to new highs. Two weeks ago (July, 1974) we saw our first major upward zig-zag following the lows at C, and I feel that this pattern is most important. I believe that the lows for gold during 1974 are past, and that within a month or two most of the golds will be attacking their 1974 highs or their all-time highs.

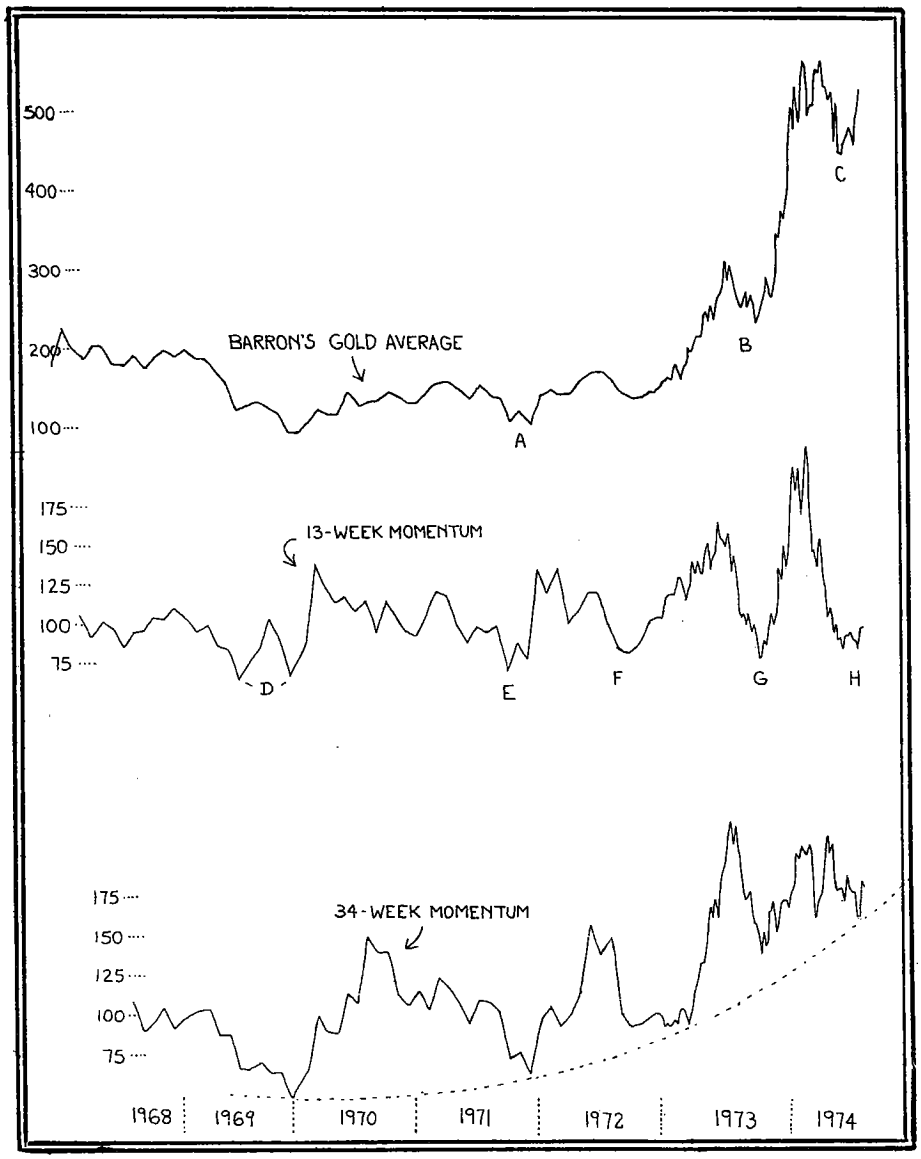
Next, we turn to momentum or the rate of advance or decline. The two momentum lines offer valuable insights as to the technical position of the group. The shorter-term 13-week momentum line (ML) is constructed by dividing the current price of the Gold Average by the price 13 weeks ago. Thus a ML figure of 150 means that the Average is 50% above its price of 13 weeks ago, while a ML figure of 50 would indicate that the current price was half of the price of 13 weeks ago. As a rule I find (during a bull market) that a ratio above 175 means that the price has gotten "ahead of itself" (i.e., overbought), and that a correction is due. A ratio of 60 or thereabouts usually indicates that a correction is about over (the group is oversold).

Note that I have marked five oversold areas on the 13-week ML, the letters D through G. Each of the first four (D through G) was followed by new highs on the Gold Average. The last oversold occurred a few weeks ago at H, and I feel that we will shortly see

the ML move up as it did following points F and G. Note also the overbought areas have each tended to occur at higher levels on the ML, and this is characteristic of a bull market. The late-1973 overbought came at 212, which was a severe overbought situation (indicating that the Gold Average had more than doubled over a period of 13 weeks!). That kind of explosive action called for a severe "shakeout-type" correction, and we have had it. So much for the 13-week ML.

The 34-week ML is the ratio of the current price against the price 34 weeks ago, and it is obviously a long-term indicator. Now the fascinating thing about the 34-week ML is that each low since 1969 has been above the preceding low. Applying a Phillips Curve to these lows I have drawn (dashed line) an up-sweeping curved line, and this line traces the rising momentum of the Gold Average. I have stated many times that the golds are in a great primary bull market, and that this bull market is assuming the form of an exponential rise. An exponential rise means that the angle of ascent continues to steepen until finally it climbs vertically. And that is where I believe the Gold Average is headed.

Now remember, the rising curve on the 34-week ML isn't my opinion or my guess regarding the action in the Gold Group. It is the ACTUAL picture of the ratio, with important low points connected, so that the increasing upward momentum of the group becomes clear to the observer.



By 1975 I would expect the volatility of the golds to be "on the wild side" with climbs breathtaking and the corrections scary. Yet the successive reaction lows should be building a series of rising stairs, and the successive new highs should be increasingly jagged and dramatic. Finally, the Gold Group should blow its top in an orgy of public and institutional participation. We will step aside at that time, leaving the most exciting (and most dangerous) part of the final explosion to the newcomers. I would guess that I will have as much trouble getting subscribers out of golds during the final phase as I had keeping them in during the past six years.

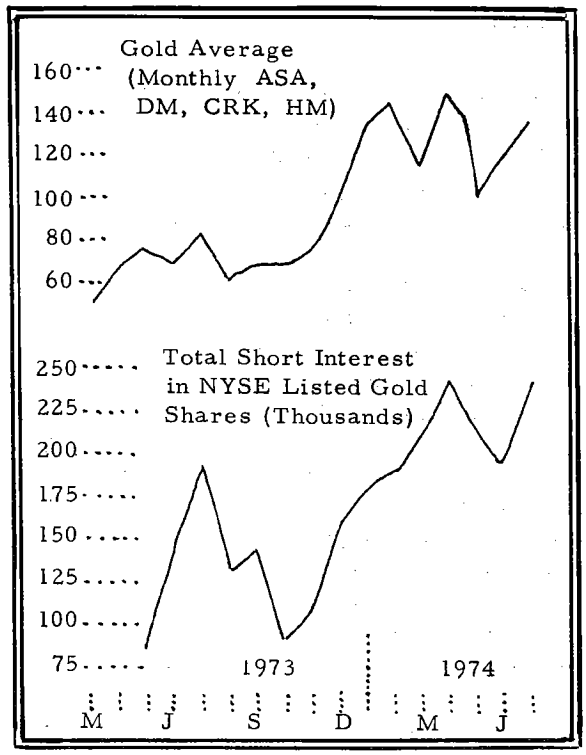
NOTES, QUOTES: We chart all the major currencies here, and we noticed that all of them bottomed out (against the dollar) in late-June. Now they are all beginning to gather strength against the dollar, with the French franc the strongest (against the dollar) and the Swiss franc and Dutch guilder gaining important strength. Does this mean that the money markets sense the beginning of a let-up on the part of the Fed in its tight money and anti-inflation fight? I don't know, but my charts are saying that the dollar is beginning to slide badly. This should be bullish for gold and gold shares ..... something is up!

* * * *

Tom Holt (Holt Investment Advisory, 277 Park Ave., NYC 10017) in his latest report thinks that we are heading into a massive (and perhaps rapid) margin-calling slump on the NYSE. He notes that "NYSE figures reveal that as much as $2.49 billion of margin debt, or 49% of the total, was carried by accounts having 'under 40%' equity." This means that there is an awful lot of margin on very thin ice. Holt thinks that late this summer there will be a snowballing of margin calls, ending when "only a few billion dollars of security debt, including that extended by the banks, is fully liquidated." Holt thinks that rather than a long eroding decline, the wave of selling will be huge and climactic with volume "far exceeding 30 million shares a day." I don't know whether you want to believe Holt's forecast (and he's been pretty accurate), but I will state that every great primary bear market terminates with a wipeout of margins and Wall Street debt. Margin debt at the end of a bear market will often be 10% of that which existed at the previous bull market's top. If that's true, we have a long way to go.

* * * *

Last week (week ending July 19) a NYSE gold share made the "20 most-active stocks for the week" list for the first time in the entire gold bull market. The stock was Homestake with 317,000 shares traded, up 9 3/4 for the week — I expect to see alot more of this kind of action during the coming year.



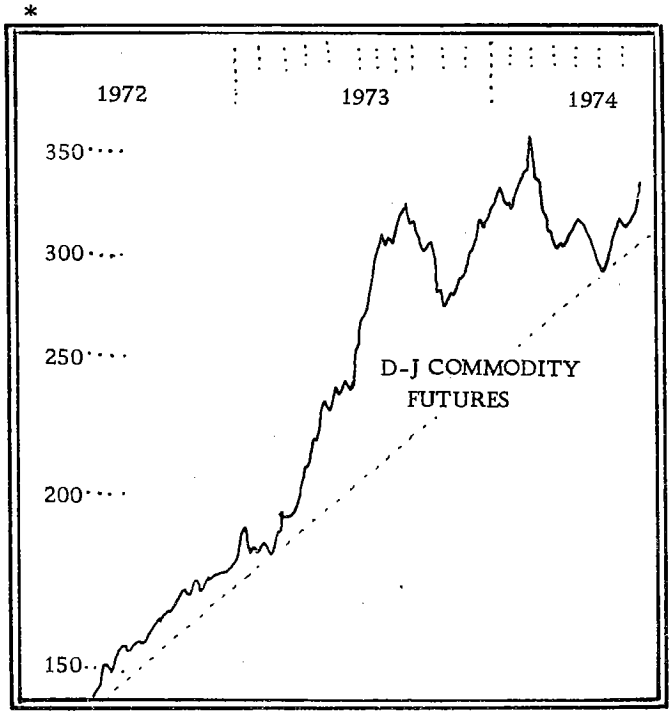
The explosion to an all-time high for HM came in the face of a new high total of 109,000 shares shorted in HM (mid-July figures). I have written before that one of the most bullish technical situations is a rising short interest which is building within a primary bull trend. The really bullish part of such a rising short interest is that this situation indicates a wide disbelief in the prevailing bull trend. In other words, the huge amount of gold shorts shows us that these people are putting their money down, betting that the golds will "fall apart." But they are positioned against the primary trend (in this case the primary bull trend in gold). In time, the gold shorts will be wiped out, but the interesting thing is that the gold shares can still garner so much real pessimism (i.e., so many shorts who are willing to put their money down against gold).

My bet is that by the time the bull market in gold hits its final top, there will be very few shorts in the gold shares. The gold shorts of today, as a matter of fact, will probably be buying the golds. And my subscribers at that time (I trust) will be out of golds and sifting through the lists for stocks to buy in the new bull market.

I have included my chart of the NYSE listed gold average plus the short totals in these same four listed issues (I have adjusted the short positions for the recent splits in HM, CRK and DM). We now have almost a quarter of a million shorts in the listed shares. This kind of pessimism should make for interesting fireworks in the months ahead.

* * * *

I note that commodities have still not collapsed as they were widely predicted to do (in market letters across the land recently). In Letter 596 I took exception to the "great crash" in commodities prediction, and I included my semi-log chart to prove that "it ain't so." Well, my D-J Commodity Futures chart is now around 5% under its all-time high, so if there is to be a collapse it's not here yet. Mind you, I'm not saying commodities can't collapse. I'm just saying that the news of the price crash is premature. As of now, it's still inflation, inflation, more inflation (note the July consumer price index at a record 12% rate).



* * * *

President Nixon is speaking on July 25 regarding the economy. I wouldn't be surprised if he talks about the $8 billion loan we're getting from the Arabs. Will the loan be backed by US gold? We'll see. And if it is gold-backed, will Mr. Nixon guarantee dollars (via gold) to the Arabs but still insist that US citizens accept fiat dollars, backed with zilch? Pressure to legalize gold should heighten with gold loans, and Mr. Nixon could mention a date for US gold legalization in the same speech.

* * * *

The Arabs loans, I must say, remain a real enigma for me. What kind of collateral will the Arabs ask for? How will they protect themselves? Of course, if they fail to ask for gold guarantees or if they fail to hedge by buying large quantities of gold on the free market, there is always the obvious answer, staring us full in the face. What is that ... simply that the Arabs are going to be "taken" by the West. After all, they've already been taken by two pound and two dollar devaluations. Maybe the Arab moneymen are really masochists at heart. But don't count on it.

* * * *

I would say that I'm becoming relatively shock-proof. I sat here and watched (through my window) as the City of San Diego painted all sorts of double yellow lines and white lines on the street in front of my office. Now (a month later) a sand blaster is removing the lines,

Imported oil will cost $25 billion, $5 billion more than anticipated.

During the Arab oil embargo, the Commerce Department had predicted imports would cost $19.7 billion this year, up from $7.7 billion last year. Since that January prediction, the department has revised its estimate of import volume. Oil shipments into the United States will be higher than originally expected, resulting in a bill of $25 billion, the department said in Washington. While the deficit from oil imports will exceed expectations, exports in other areas will help offset the deficit, it said.

ostensibly to prepare the road for new lines. Who pays for this nonsense, I ask? Need I ask!

* * * *

I know all about the US ding-bat Government grants. I know that there is a $25,000 grant to study bi-sexuality in Polish frogs (it's true!) and so forth. But when I heard that the British borrowed $1.2 billion from Iran to lower taxes in Britain, I'll admit I blinked. Borrow to lower taxes, gimme a minute...

* * * *

The great gold mystery will remain a mystery, until a few Congressmen take a "count." At any rate, Mr. Simon saw fit to refute the crescendo of rumors. I still think the gold will be where it's supposed to be, but it should be fun finding out.

* * * *

The world is a very "small" place today with instant communications, social customs and fads sweeping the world in a few weeks. Americans follow the latest shenanigans of the international jet set, and the jet set follows the latest bathing styles of the girls on the Brazilian or Southern Californian beaches.

I receive a great deal of mail from overseas each week, dozens of clippings, personal letters, etc. Again, I can only say "thank you" and I can't tell all my subscribers how much I appreciate this data and information. On this page I include a most interesting item from the Daily American (June 21), published in Rome. It would seem that the fruits of inflation, years of incompetent government, and widespread socialism are finally sweeping across Britain.

A subscriber, S.K., in Lugano, Switzerland, writes these revealing words: "The big news around here now is the dearth of Tourists. They simply are NOT here, for the first time in many years. Hotels are from 15 to 20% occupied and as a rule at this season it was hard to find a room without a reservation.

"As a routine thing we drive to Como, Italy at least once a week to shop for all house needs. As it is an EEC nation the selection of goods is far greater than Swiss and less expensive. It is also true that home grown produce is far more abundant. We went this week, first time since March. The super market was stripped bare of all items that can be stored for future use. All paper goods, rice, olive oil, sugar, staples have been hoarded by the people in fear of chaos and devaluation and higher prices, soon to come. It was astonishing. A big parking lot, a block square has been made a park (ecology) but the cars have also gone home to remain in private garages. Petrol costs are now equal to $1.50 per gal. So people are NOT driving as before.

"All signs of a depression are showing prominently everywhere. Many people in Italy are NOT being paid their wages, so they strike. Money has disappeared in Italy. Italians have totally disappeared from Switzerland. It is astonishing. How long will it be until France and England find the same situation, followed a lot later by others. Auto dealers here are doing NO business."

GOLD-SILVER: Referring to the daily gold bullion chart in the last Letter, it is well to note that the gold price (second London fixing) is now holding above its rising 8-day moving average line (8-day line at $143). The 8-day line is moving steadily towards the 34-day moving average which is now 147. I would say that if gold bullion can move into the 148-50 area, then hold there, we would have a signal for a major turn to the upside for bullion. The gold shares seem to sense the picture, and they are jumping the gun on the bullion chart. They are showing broad strength under the leadership of....you guessed it (see last Letter) Homestake.

I am including my ratio (semi-log) chart (page 8) of gold and silver, plotted weekly since 1971. This chart shows percentage of advance or decline so that the movements of both metals can be correctly compared. On a ratio chart, when the price movement holds on or above a rising trendline, it means that the "growth rate" is intact. It is clear that the rate of rise in both silver and gold has held firmly intact since 1971.

My own guess is that gold will be at new highs on this chart (above $180) by the end of 1974. I feel that silver will move in sympathy with gold. But as subscribers know, I am not a great silver rooter (and I admit I could be 100% wrong) but I feel that silver will remain very bullish as long as commodities in general are bullish (see commodity chart, page 6). When commodities finally go down the tubes (and I don't think they are ready yet), I have a feeling that silver may go with them. Mind you, this is only a sneaking suspicion on my part — but why be half safe, and that is why I opt for the only true monetary metal in the world today, gold.

Gold Is in Them Thar Vaults, Treasury Insists

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON — Fort Knox hasn't been the target of a golden fleece, the Treasury said.

Responding to a flurry of rumors that the gold vaults of the fabled Kentucky military fortress were empty, the Treasury yesterday released a breakdown of where the $11.65 billion of U.S. gold stock is located. And Treasury Secretary William Simon, eager to melt the rumors, offered to allow a group of Congressmen into the Fort Knox vaults "and count the bars if you have time."

About half, or 147.4 million ounces, of the U.S. gold stock that weighs 276 million ounces is held at Fort Knox, according to the Treasury. The Denver mint holds 55.1 million ounces and U.S. Mint facilities at New York and San Francisco hold another 64.5 million ounces. The remainder of the gold is held at such sites as the Federal Reserve Bank of New York, and the Bank of Canada and the Bank of England, both of which hold it as a convenience to the U.S. The Federal Reserve Bank of New York, at the same time, holds millions of dollars of gold owned by foreign countries.

UK drifting into anarchy, police official warns

EASTBOURNE, England, June 20 (AP) -- Britain is drifting into anarchy and is becoming "a very dangerous place," one of the country's top police chiefs warns.

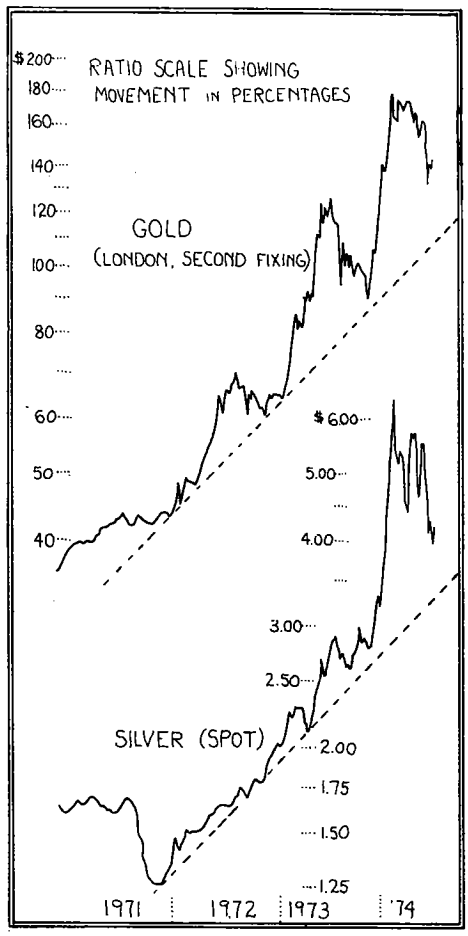
"Anarchy was never associated with the British character, but I now see this as a distinct possibility," James Haughton, president of the Association of Chief Police Officers, told a conference of police chiefs last night.

"An ever - increasing population in an already overcrowded island with rapidly dwindling resources, aggravated by greed, violence and corruption, provides little optimism for the survival of our present way of life.

"We are in a Nero Rome situation with too many fiddlers while the country is being burned and blasted to death."

"Is it unexpected that young people indulge in vandalism, hooliganism, drug - taking and drunkenness when they see their parents behave themselves so badly?" he asked.

STOCKS: I am including this very long-term chart of Homestake, a point & figure chart going back to 1914. This chart is a 3-point reversal chart meaning that all rallies or declines of 3 points or more are shown. Rising trendline A on the chart contains all bottoms from 1914 to 1971. Between 1968 and 1973 HM built a perfectly enormous base, a giant "head-and-shoulder" bottom formation. The breakout level is marked with a C on the chart.

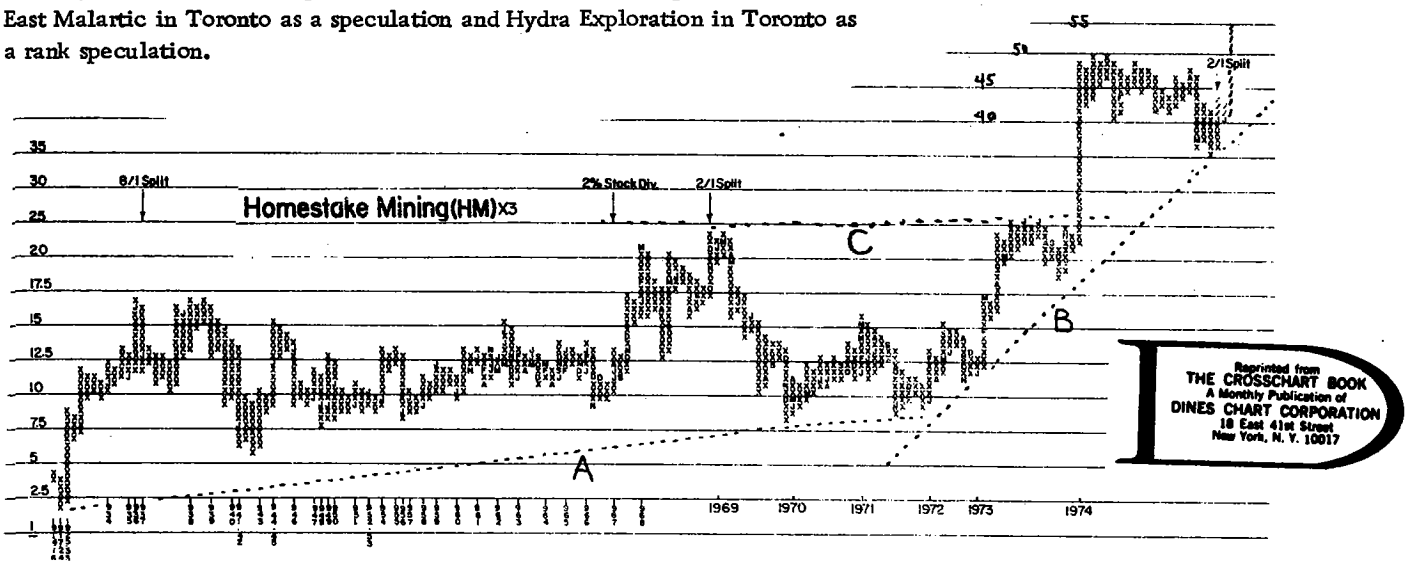


The breakout occurred at about the 26 level, whereupon HM rose to 50, then went into its most recent consolidation — correction. The 1972 to 1974 move - ments in HM have formed rising trendline marked B. Because of the enormous base building in HM and because I have a strong intuition (I don't know where or how I got it) that HM may be the glamor stock of the gold move, I have been recommending HM in Letter after Letter for years.

Today, HM rose to an all-time high of 55. I don't know where it's going or how— or exactly why it's exploding at this time. The fact remains that on a point and figure basis, the 1968-73 technical base in HM could support a move into the clouds. I hope all my subscribers have this stock, representing the greatest gold mine in the West (outside of Africa). If you don't have it, I guess you can still buy some (after all, we're in a gold bull market and there are over 100,000 shorts locked into HM!).

HM chart courtesy of Jim Dines' Crosschart book. Speaking of James, the July 29 issue of Newsweek looks like "old home week." The article entitled "Meet the New Jeremiahs" shows pictures of Edson Gould, Jim Dines, Harry Schultz and Harry Browne. Edson, James and Harry are all looking somber. Only Harry Schultz is laughing. Harry, if you know something we don't know, come out with it. It can't be that funny in Britain today!

Other gold shares you can buy here: ASA on the NYSE, ADR's in S. African issues as follows: West Driefontein, Vaal Reefs, President Brand, President Steyn, Free State Geduld, East Driefontein, Elsburg. These Canadians can be bought: Dome and Campbell on the NYSE, Pamour Porcupine on Toronto, East Malartic in Toronto as a speculation and Hydra Exploration in Toronto as a rank speculation.



THOUGHT: An article appeared in last week's Los Angeles Times regarding the astronauts and the space programs. The article expressed surprise that the whole thing (including the aura of the astronauts themselves) seems to have faded away. No one is really very interested any more. I don't know why but the search for outer space left me cold. I guess I agree with Jung: the new frontiers of the immediate future will not be outer space, they will be within — deep within the psyche of man himself. I know I have many science-oriented readers so you'll have to excuse me on that one.

At any rate, I want to recommend a book which I found totally fascinating, "The Will to Live" by Dr. Arnold Hutschnecker (paperback, the Cornerstone Library, $1.50). The book deals with how we live, how we could live, how we choose to die, how we arrange our death, what we get out of disease, etc. To me, a totally fascinating, easily-read book, which should be of intense interest to most readers.